

REBUTTAL TESTIMONY

of

MIKE LUTH

Financial Analysis Division
Illinois Commerce Commission

Consumers Illinois Water Company

Proposed Increase in Water Rates for the
Kankakee, Vermilion and Woodhaven Divisions

Docket Nos. 00-0337/00-0338/00-0339, Consolidated

October 26, 2000

I. INTRODUCTION

1 Q. Please state your name and business address.

2 A. My name is Mike Luth. My business address is 527 E. Capitol Ave., Springfield,
3 Illinois, 62701.

4 Q. Did you previously file direct testimony in this docket?

5 A. Yes. It was identified as ICC Staff Exhibit 3.00, with attached schedules.

6 Q. What is the purpose of this rebuttal testimony?

7 A. I am addressing some of the previously filed rebuttal testimony comments of
8 Consumers Illinois Water Company ("CWC" or the "Company") witness Frank X.
9 Simpson (CIWC Exhibit No. 6.0R).

10 Q. Are you sponsoring any schedules as part of this rebuttal testimony?

11 A. Yes, the following schedules present the adjustments that I am proposing that
12 continue to be at issue or have been revised since I filed direct testimony.

Schedule 10.01	Staff Adjustment to Allocation of Corporate and Vermilion Remittance Center
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Schedule 10.02	Staff Adjustment to Service Company Billings
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Schedule 10.03	Staff Adjustment to Accumulated Deferred Income Taxes
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13 Q. Are you continuing to propose an adjustment to Insurance Expense, which was the
14 subject of Schedule 3.02 attached to your direct testimony?

15 A. Yes, I am continuing to propose an adjustment to Insurance Expense. The
16 Company accepted the Insurance Expense adjustment in the Rebuttal Testimony of
17 Frank X. Simpson (CIWC Exhibit No. 6.0R, page 11, lines 11 through 16), so Staff
18 believes that another adjustment schedule in this rebuttal testimony would be
19 duplicative and unnecessary.

20 Q. Did the Company accept any other adjustments that you presented in direct
21 testimony?

22 A. Yes, Mr. Simpson states his general agreement with my adjustment to allocated
23 Plant-in-Service, Depreciation Expense and Accumulated Reserve for Depreciation
24 from Corporate operations in Kankakee and from the Vermilion Remittance Center
25 (CIWC Exhibit 6.0R, page 11, line 17 through page 12, line 22). Both the Insurance
26 Expense adjustment and the adjustment to the allocation of the Corporate and
27 Vermilion Remittance Center are the result of the Candlewick Sewer Division being
28 included in the allocations.

29 Mr. Simpson explains that the Company believes that the adjustment to allocated
30 Corporate and Vermilion Remittance Center Plant-in-Service, Depreciation
31 Expense and Reserve for Depreciation should have included an adjustment to
32 Accumulated Deferred Income Taxes ("ADIT"). I agree with Mr. Simpson, but I have
33 calculated different amounts than Mr. Simpson indicated (CIWC Exhibit No. 6.0R,
34 page 6, lines 8 through 14) for the adjustment to ADIT on Schedule 10.03 attached

35 to this testimony. I will explain Schedule 10.03 later in this rebuttal testimony.

36 Q. What areas of disagreement remain between Staff and the Company with respect
37 to your direct testimony?

38 A. Other than the difference in the amount of the ADIT adjustment, the Company
39 disagrees for the most part with my adjustment to Service Company Billings
40 (Schedule 10.02 in this rebuttal testimony), as described by Mr. Simpson beginning
41 on page 12, line 23 of his rebuttal testimony through page 22, line 10.

42 Q. Why do you say the Company disagrees with the Service Company Billings
43 adjustment "for the most part"?

44 A. The Company agrees with the aspect of the adjustment that has to do with the
45 inclusion of Candlewick Sewer in the allocation of Service Company Billings, as
46 explained by Mr. Simpson on page 13, lines 8 through 20 of his rebuttal testimony.
47 The Company disagrees with both the merger and lobbying-related disallowance of
48 costs.

II. Schedule 10.01 - Allocation of Corporate and Vermilion Remittance Center

49 Q. Please explain Schedule 10.01, Staff Adjustment to Corporate and Vermilion
50 Remittance Center.

51 A. This schedule updates the adjustment that I presented on Schedule 3.01 in direct
52 testimony. Through the data request process, the Company indicated that I had

53 used a different depreciation rate for Office Furniture and Equipment from the rate
54 used by Staff witness Dianna Hathhorn in ICC Staff Ex. 1.00. The reason for the
55 difference was that Ms. Hathhorn used the composite rate suggested for that
56 account by Staff witness Roy A. King in ICC Staff Ex. 6.00, pending the receipt of
57 adequate information to properly separate the depreciation rates for different
58 classes of computer equipment and software.

59 Mr. King received the necessary information to properly classify computer
60 equipment and software after he prepared his direct testimony, enabling him to
61 develop appropriate depreciation rates for the Office Furniture and Equipment
62 account subclasses. I have used his composite depreciation rates for the Office
63 Furniture and Equipment account in my Schedule 10.01, thus eliminating the
64 difference between Mr. King and myself in depreciation rates for account number
65 340. The adjustment to Depreciation Expense on Schedule 10.01 is somewhat less
66 than it was on Schedule 3.01 because Mr. King's depreciation rates on the Office
67 Furniture and Equipment are slightly lower than the Company rates that I used on
68 Schedule 3.01. As noted previously, the Company generally agrees with this
69 adjustment, except for the effect upon ADIT, which I adjust through Schedule 10.03
70 discussed later.

III. Schedule 10.02 - Service Company Billings

71 Q. Please explain Schedule 10.02, Staff Adjustment to Service Company Billings.

72 A. Schedule 10.02 updates my adjustment to Service Company Billings that was
73 proposed in direct testimony on Schedule 3.03. Although the Company did not
74 agree with the adjustment in its entirety, I made some corrections that the Company
75 and I discussed through my replies to data requests. The corrections maintain the
76 adjustment that I proposed in direct testimony, although the amount of the
77 adjustment is now changed.

78 Q. What corrections were necessary?

79 A. The totals for the PSC and PSW Payroll and Sundry columns on page 6 of
80 Schedule 3.03 were not correct. The incorrect totals affected the percentages
81 shown below the totals on page 6, and also affected the Payroll and Sundry
82 Adjustment Factors percentages shown on pages 4, 5 and 7. The Payroll and
83 Sundry Adjustment Factors were carried forward to pages 2 and 3, which ultimately
84 affected the summary adjustment shown on page 1.

85 In addition, the base Test year projected Service Company billings amount on page
86 2 is adjusted to include the effect of Staff witness Hathhorn's adjustment to
87 Depreciation Expense. The Company included Depreciation Expense in
88 Contractual Services account no. 634, which was removed by Ms. Hathhorn.
89 Corrections aside, Schedule 10.02 maintains the same page numbering and

90 presents the same information as Schedule 3.03.

91 Q. Did the Company suggest any corrections to Schedule 3.03 that you rejected?

92 A. Yes, the Company recommended that the base "Test year projected Service
93 Company amount (Page 2 of Schedule 3.03) be further adjusted to include the
94 effect of Staff witness Steven R. Knepler's adjustment to Political/Lobbying expense
95 in ICC Staff Ex. 2.00. I did not make that change because Mr. Knepler's adjustment
96 affects account no. 675, Miscellaneous Expense, while my Service Company
97 Billings adjustment affects account no. 634. The two adjustments are not duplicative
98 not only because the adjustments affect different accounts, but also because the
99 adjustments are based upon different payments. Mr. Knepler's adjustment involved
100 direct contributions to political campaigns. My adjustment includes payments to a
101 Philadelphia Suburban Water Company employee, Chris Franklin, who was paid a
102 salary and expenses for lobbying activities that were billed to CIWC. Since the
103 adjustments are not duplicative and involve separate expense accounts, I have not
104 adjusted my proposed adjustment to include the effects of Mr. Knepler's adjustment.

105

106 Q. Does the Company agree with the corrected adjustment?

107 A. The Company agrees to the portion of the adjustment based upon an allocation to
108 Candlewick Sewer, but does not agree to the portion of the adjustment based upon
109 disallowed merger and lobbying-related costs.

110 Q. Why does the Company disagree with the merger-related portion of the adjustment?

111 A. CIWC witness Simpson lists the Company's reasons for disagreement with the
112 disallowance of merger-related costs on page 16, lines 16 and 17 of his rebuttal
113 testimony, with further discussion beginning on page 18, line 22 through page 22,
114 line 2. The reasons are that the Company believes that the adjustment is different
115 from the Commission's definition of unrecoverable merger costs pursuant to the
116 Commission's merger approval in Docket No. 98-0602, and that the merger costs
117 represent one-time, non-recurring 1999 costs that will not occur during the 2001 test
118 year.

119 Q. Do you agree with the Company's contention that your definition of merger costs is
120 at odds with the Commission's Order approving the merger in Docket No. 98-
121 0602?

122 A. No, I do not. Merger costs represent additional costs that do not directly improve or
123 add to a customer's service. Merger costs include those costs that are necessary
124 within an organization to complete a merger, such as accounting and organizational
125 re-structuring, in addition to the transaction-related costs that Mr. Simpson
126 describes in his rebuttal testimony. Since the Commission denied merger-related
127 costs in approving the merger, all merger-related costs should be excluded from
128 recovery from ratepayers, including those costs that are incurred within the
129 Company.

130 Q. Do you agree with the Company's contention that merger-related costs represent
131 one-time, non-recurring costs?

132 A. To a some extent, I agree that merger-related costs are non-recurring. As it applies
133 to the Company-proposed revenue requirement in this docket, I do not agree that
134 merger-related costs do not affect test year expenses. Company Schedule H-6
135 indicates that account no. 634 is based upon an inflation factor applied to the prior
136 year amount. Page 4 of Schedule 10.02 attached to this testimony lists acquisition-
137 related costs in the year 2000, so an inflation factor applied to expenses in 2000 to
138 determine the test year amount necessarily includes acquisition or merger-related
139 costs. The Chairman of Philadelphia Suburban Corporation's ("PSC") letter to
140 shareholders included in the PSC 1999 annual report emphasizes and lauds the
141 Company's "growth-through-acquisition strategy." It is clear that acquisition and
142 merger-related activities are on-going at PSC. If merger or acquisition-related
143 costs for the merger of CIWC is inappropriate for recovery from Illinois ratepayers,
144 acquisition or merger-related costs for other potential or actual acquisitions should
145 be similarly excluded from recovery. My adjustment recognizes that while
146 acquisition or merger-related activities are part of the PSC management
147 philosophy, corresponding costs should not be recovered from CIWC ratepayers.

148 In addition, to the extent that the costs do not recur, but an inflation factor is applied
149 to a year that included merger-related costs, the base year should have been
150 adjusted to eliminate the merger-related costs. There was no such adjustment of

151 the test year amount. If normal, on-going activities were delayed in 1999 and 2000
152 because merger-related costs were incurred, then the test year would be expanded
153 to include more than one year's worth of normal, on-going expense. The merger-
154 related aspect of the adjustment shown on my Schedule 10.02 is a reasonable
155 measure of merger-related costs in the test year, or merger-related displaced costs
156 from prior years.

157 Q. Does the Company similarly contend that the portion of your adjustment on
158 Schedule 10.02 that is based upon lobbying-related expenses is non-recurring?

159 A. Yes, as described by CIWC witness Simpson on page 16, lines 9 through 15 of his
160 rebuttal testimony, and continuing on page 16, line 21 through page 18, line 21.

161 Q. Do you agree with the Company's contention?

162 A. No, I do not. As with the similar merger-related argument that Mr. Simpson makes,
163 there are lobbying-related (legislative affairs) billings by Mr. Franklin to CIWC in the
164 year 2000. As explained earlier, an inflation factor was applied to account no. 634
165 to determine the test year amount, so the test year necessarily includes lobbying-
166 related costs.

167 Q. On page 18, lines 16 through 21 of his rebuttal testimony, Mr. Simpson claims that
168 the portion of your adjustment based upon the disallowance of a lobbying
169 employee's allocated or charged salary and related expenses to CIWC "assumed

170 that every employee who charges time to Consumers Illinois in 2001 will spend as
171 much time on lobbying Mr. Franklin did in 1999." Do you agree with that
172 characterization?

173 A. No, I do not agree that the adjustment assumes that every employee spends a
174 similar amount of time on lobbying as Mr. Franklin. Mr. Simpson's conclusion is an
175 exaggeration. If, as Mr. Simpson states, the adjustment assumes that every
176 employee spent a similar amount of time on lobbying as Mr. Franklin, then the entire
177 amount of billings from affiliated companies would have been disallowed because
178 the adjustment disallows all of Mr. Franklin's salary and related expenses. Clearly,
179 the adjustment does not disallow the entire amount of every employee's salary and
180 expenses billed to CIWC. The adjustment in direct testimony disallowed only 9.5%
181 of salaries and 11.9% of expenses as a result of Mr. Franklin's lobbying efforts.
182 Corrected in this rebuttal testimony, the adjustment drops to 5.2% of salaries and
183 9% of expenses, nowhere near 100% as Mr. Simpson's statement implies. Mr.
184 Simpson's discussion of the accounts payable clerk or accountant from PSC's Bryn
185 Mawr headquarters lobbying the Illinois Legislature is irrelevant.

186 Q. Mr. Simpson believes that your adjustment is overstated because he claims that the
187 Company's lobbying efforts in the 2001 test year will be less intensive than in 1999
188 (CIWC Exhibit 6.0R, page 17, line 19 through page 18, line 16). Is that an
189 appropriate conclusion?

190 A. No, it is not. As with my prior discussion of merger-related costs, CIWC applied an

191 inflation factor to projected current year 2000 amounts for account no. 634 to
192 determine test year 2001 expense. Mr. Franklin's salary and expenses were
193 included in the billings to Illinois in the early part of the current year 2000, and
194 included time for legislative affairs. It follows that the test year necessarily includes
195 an amount for lobbying because the test year is based upon 2000 expenses with an
196 inflation factor applied, and the year 2000 had lobbying expenses as well as merger
197 expenses billed to CIWC. Furthermore, to the extent that lobbying efforts will be less
198 intensive than in 1999, the projected test year amount should have shown a
199 corresponding reduction. As I discussed in direct testimony (ICC Staff Exhibit 3.00,
200 page 11, line 214 through page 12, line 229), the only adjustment to billings from
201 PSW and PSC in the year 2000 appears to be rate case expenses that will be
202 deferred and included in revenue requirement operating expenses through
203 amortization. If lobbying expenses in 1999 and 2000 displaced costs for normal,
204 on-going activities in those years, then the Company's test year reflects expenses
205 that should have been incurred in prior years and should be adjusted. My
206 adjustment is a reasonable estimate of the amount of lobbying or displaced normal
207 operating expenses in the test year.

208 Q. Are there any other factors to consider in determining whether your Service
209 Companies Billings adjustment is appropriate?

210 A. Yes, the adjustment is conservative. It does not include any percentage of billings to
211 CIWC for the salary and expense of the PSC Chief Executive Officer, President and

212 Chairman for "Business Planning". Most other employees of PSC and PSW
213 similarly billed CIWC under such descriptions as "Business Planning",
214 "Management", and "Shareholder", which are not informative of how their time
215 related to CIWC. Given the PSC Chairman's emphasis in touting the Company's
216 "growth through acquisition" strategy in his letter to shareholders as I described
217 previously, it is reasonable to conclude that a fair to significant amount of
218 management time or "Business Planning," etc. was spent on that strategy. Since
219 my adjustment does not include any reductions for "Business Planning," it is
220 conservative.

IV. Schedule 10.03 - Accumulated Deferred Income Taxes

221 Q. Please explain Schedule 10.03, Staff Adjustment to Accumulated Deferred Income
222 Taxes.

223 A. Schedule 10.03 presents my portion of the adjustment to Accumulated Deferred
224 Income Taxes ("ADIT") based upon an allocation to the Candlewick Sewer division.

225 Similar to the adjustment presented in Schedule 10.01, this adjustment allocates to
226 Candlewick Sewer the part of ADIT that was not included in the Company's
227 allocation of ADIT on CIWC Schedule B-9. As one of the operating divisions of
228 CIWC, Candlewick Sewer should be part of the allocation of ADIT. Schedule 10.03
229 is presented on the basis of year-end ADIT balances for the year prior to the test
230 year (2000) and for the test year (2001) so that the adjustment can be included in
231 Staff witness Hathhorn's adjustment to ADIT on Schedule 8.10, which is part of ICC

232 Staff Exhibit 8.00.

233 Schedule 10.03 re-calculates ADIT based upon the inclusion of Candlewick Sewer
234 average 2001 plant-in-service balances in the allocation of Total CIWC ADIT. The
235 Kankakee and Danville (Vermilion) plant-in-service balances are adjusted so that
236 Corporate and Vermilion Remittance Center plant-in-service that is allocated out is
237 removed from the Kankakee and Danville balances. The allocation of ADIT to the
238 allocated-out Corporate and Vermilion Remittance Center plant-in-service balances
239 is then allocated to the operating divisions on an overall basis by removing the
240 Corporate and Vermilion Remittance Center plant-in-service balances from the
241 allocation factors. The result is that the Kankakee, Vermilion and Woodhaven ADIT
242 amounts in rate base are reduced, thereby increasing rate base because net ADIT
243 is a reduction of rate base in this docket.

244 Q. Does this conclude your rebuttal testimony?

245 A. Yes, it does.

Consumers Illinois Water Company
Staff Adjustment to Allocation of Corporate Office and Vermilion Remittance Center
For the test year ending December 31, 2001

	Corporate Office				Vermilion Remittance Center				Total
	30360	30460	34060	341	30462	34062	34062.1		
Kankakee									
Amount to be Allocated	\$ 100,296	\$ 1,655,229	\$ 2,334,162	\$ 19,187	\$ 45,481	\$ 21,185	\$ 10,026	\$ 4,185,566	(1)
Allocation Factor, per Staff	0.33650	0.33650	0.33650	0.33650	0.33650	0.33650	0.33650	0.33650	(2)
Allocated Amount, per Staff	\$ 33,750	\$ 556,987	\$ 785,449	\$ 6,456	\$ 15,304	\$ 7,129	\$ 3,374	\$ 1,408,450	
Alloc. Amt., per Company	\$ 35,116	\$ 579,530	\$ 817,239	\$ 6,718	\$ 15,924	\$ 7,418	\$ 3,511	\$ 1,465,454	(1)
*Plant-in-Service Adjustment	\$ (1,366)	\$ (22,543)	\$ (31,789)	\$ (261)	\$ (620)	\$ (289)	\$ (137)	\$ (57,004)	
Depreciation Rate		0.0400	0.1180	0.1077	0.0400	0.1180	0.1180		(3)
*Deprec. Exp. Adjustment		\$ (902)	\$ (3,751)	\$ (28)	\$ (25)	\$ (34)	\$ (16)	\$ (4,756)	
Plant-in-Service Adjustment Factor	(0.0389)	(0.0389)	(0.0389)	(0.0389)	(0.0389)	(0.0389)	(0.0389)	(0.0389)	(4)
Deprec. Reserve, per Co.		\$ (87,844)	\$ (70,258)	\$ (1,047)	\$ (1,123)	\$ (2,577)	\$ (3,419)		(5)
*Deprec. Reserve Adjustment		\$ 3,417	\$ 2,733	\$ 41	\$ 44	\$ 100	\$ 133	\$ 6,468	
Vermilion									
Amount to be Allocated	\$ 100,296	\$ 1,655,229	\$ 2,334,162	\$ 19,187	\$ 45,481	\$ 21,185	\$ 10,026	\$ 4,185,566	(1)
Allocation Factor, per Staff	0.26962	0.26962	0.26962	0.26962	0.26962	0.26962	0.26962	0.26962	(2)
Allocated Amount, per Staff	\$ 27,042	\$ 446,282	\$ 629,336	\$ 5,173	\$ 12,263	\$ 5,712	\$ 2,703	\$ 1,128,510	
Alloc. Amt., per Company	\$ 28,136	\$ 464,344	\$ 654,807	\$ 5,383	\$ 12,759	\$ 5,943	\$ 2,813	\$ 1,174,184	(1)
*Plant-in-Service Adjustment	\$ (1,094)	\$ (18,062)	\$ (25,471)	\$ (209)	\$ (496)	\$ (231)	\$ (109)	\$ (45,673)	
Depreciation Rate		0.0400	0.1180	0.1077	0.0400	0.1180	0.1180		(3)
*Deprec. Exp. Adjustment		\$ (722)	\$ (3,006)	\$ (23)	\$ (20)	\$ (27)	\$ (13)	\$ (3,811)	
Plant-in-Service Adjustment Factor	(0.0389)	(0.0389)	(0.0389)	(0.0389)	(0.0389)	(0.0389)	(0.0389)	(0.0389)	(4)
Deprec. Reserve, per Co.		\$ (70,385)	\$ (56,294)	\$ (839)	\$ (2,308)	\$ (5,295)	\$ (7,027)		(5)
*Deprec. Reserve Adjustment		\$ 2,738	\$ 2,190	\$ 33	\$ 90	\$ 206	\$ 273	\$ 5,529	

(1) From Company Schedule B-5, page 3

(2) Allocation factors from page 3, this schedule

(3) From ICC Staff Exhibit 13.00, Schedule 13.03 for Kankakee, Vermilion and Woodhaven. Depreciation rate for account no. 340 represents the Staff composite rate, calculated by dividing the sum of the Staff proposed annual expense for account numbers 340.00 through 340.05 by the sum of the sum of the plant balances for those account numbers.

(4) = Plant-in-Service Adjustment divided by Allocated Amount (Plant-in-Service), per Company

(5) From Company Schedule B-6, page 3

Consumers Illinois Water Company
Staff Adjustment to Allocation of Corporate Office and Vermilion Remittance Center
For the test year ending December 31, 2001

	30360	Corporate Office			341	Vermilion Remittance Center			Total	
		30460	34060			30462	34062	34062.1		
Woodhaven Water										
Amount to be Allocated	\$ 100,296	\$ 1,655,229	\$ 2,334,162	\$ 19,187	\$ 45,481	\$ 21,185	\$ 10,026	\$ 4,185,566	(1)	
Allocation Factor, per Staff	<u>0.09833</u>	<u>0.09833</u>	<u>0.09833</u>	<u>0.09833</u>	<u>0.09833</u>	<u>0.09833</u>	<u>0.09833</u>	<u>0.09833</u>	<u>0.09833</u>	(2)
Allocated Amount, per Staff	\$ 9,862	\$ 162,754	\$ 229,512	\$ 1,887	\$ 4,472	\$ 2,083	\$ 986	\$ 411,555		
Alloc. Amt., per Company	<u>\$ 10,261</u>	<u>\$ 169,341</u>	<u>\$ 238,801</u>	<u>\$ 1,963</u>	<u>\$ 4,653</u>	<u>\$ 2,168</u>	<u>\$ 1,026</u>	<u>\$ 428,212</u>	(1)	
*Plant-in-Service Adjustment	<u>\$ (399)</u>	<u>\$ (6,587)</u>	<u>\$ (9,289)</u>	<u>\$ (76)</u>	<u>\$ (181)</u>	<u>\$ (84)</u>	<u>\$ (40)</u>	<u>\$ (16,657)</u>		
Depreciation Rate		<u>0.0400</u>	<u>0.1180</u>	<u>0.1077</u>	<u>0.0400</u>	<u>0.1180</u>	<u>0.1180</u>		(3)	
*Deprec. Exp. Adjustment		<u>\$ (263)</u>	<u>\$ (1,096)</u>	<u>\$ (8)</u>	<u>\$ (7)</u>	<u>\$ (10)</u>	<u>\$ (5)</u>	<u>\$ (1,390)</u>		
Plant-in-Service Adjustment Factor	<u>(0.0389)</u>	<u>(0.0389)</u>	<u>(0.0389)</u>	<u>(0.0389)</u>	<u>(0.0389)</u>	<u>(0.0390)</u>	<u>(0.0386)</u>	<u>(0.0389)</u>	(4)	
Deprec. Reserve, per Co.		<u>\$ (25,669)</u>	<u>\$ (20,530)</u>	<u>\$ (306)</u>	<u>\$ (328)</u>	<u>\$ (753)</u>	<u>\$ (999)</u>		(5)	
*Deprec. Reserve Adjustment	<u>\$ 998</u>	<u>\$ 799</u>	<u>\$ 12</u>	<u>\$ 13</u>	<u>\$ 29</u>	<u>\$ 39</u>	<u>\$ 1,890</u>			

(1) From Company Schedule B-5, page 3

(2) Allocation factors from page 3, this schedule

(3) From ICC Staff Exhibit 13.00, Schedule 13.03 for Kankakee, Vermilion and Woodhaven. Depreciation rate for account no. 340 represents the Staff composite rate, calculated by dividing the sum of the Staff proposed annual expense for account numbers 340.00 through 340.05 by the sum of the the sum of the plant balances for those account numbers.

(4) = Plant-in-Service Adjustment divided by Allocated Amount (Plant-in-Service), per Company

(5) From Company Schedule B-6, page 3

Consumers Illinois Water Company
 Staff Adjustment to Allocation of Corporate Office and
 Vermilion Remittance Center
 For the test year ending December 31, 2001

	2001 Customer Count	Allocation Factor
Kankakee	21,242	0.33650 **
Willowbrook Water	911	0.01443
Willowbrook Sewer	970	0.01537
University Park Water	1,629	0.02581
University Park Sewer	1,594	0.02525
Woodhaven Water	6,207	0.09833 **
Sublette Water	197	0.00312
Sublette Sewer	5,465	0.08657
Candlewick Water	2,453	0.03886
Candlewick Sewer	2,453	0.03886
Tower Lakes Water	373	0.00591
Tower Lakes Sewer	-	-
Oak Run	2,612	0.04138
Danville	17,020	0.26962 **
	<u>63,226</u>	<u>1.00000</u>

Customer count from Company pre-filed WP A-5, page 3.
 Candlewick Sewer not shown on WP A-5, page 3, same
 number of customers as Candlewick Water.

Consumers Illinois Water Company
 Staff Adjustment to Service Company Billings
 For the test year ending December 31, 2001

	<u>Kankakee</u>	<u>Vermilion</u>	<u>Woodhaven</u>	
Summary of Adjustment to Service Company Billings:				
Candlewick Sewer Allocation	\$ (34,049)	\$ (28,708)	\$ (3,851)	(1)
Payroll-related Billings	\$ (33,242)	\$ (28,027)	\$ (3,760)	(1)
Sundry-related Billings	\$ (40,631)	\$ (34,257)	\$ (4,596)	(2)
Total Adjustment	\$ (107,922)	\$ (90,992)	\$ (12,207)	
(1)	From page 2 of this schedule			
(2)	From page 3 of this schedule			

Consumers Illinois Water Company
Staff Adjustment to Service Company Billings
For the test year ending December 31, 2001

	Kankakee	Vermilion	Woodhaven	
Test year projected Service Company billings	\$ 1,019,210	\$ 852,416	\$ 113,124	(1)
Less: Staff Depreciation Adjustment	\$ (143,868)	\$ (114,387)	\$ (14,113)	(2)
Adjusted Test year projected Service Co. billings	\$ 875,342	\$ 738,029	\$ 99,011	
Multiplied by: Candlewick Sewer Adjustment Factor	(0.0389)	(0.0389)	(0.0389)	(3)
Adjustment to Service Company Billings from Candlewick Sewer Allocation Factor	\$ (34,049)	\$ (28,708)	\$ (3,851)	
Adjusted Company Projected Test Year Service Company Billings	\$ 841,293	\$ 709,321	\$ 95,160	
<u>Payroll-Related Service Company Billings:</u>				
1999 CWC Billings to Illinois	0.77876	0.77876	0.77876	(4)
Multiplied by: Adjusted test year projected Service Company billings	\$ 841,293	\$ 709,321	\$ 95,160	
Test year CWC Billings to Illinois	\$ 655,166	\$ 552,392	\$ 74,107	
1999 Payroll-related CWC Billings to Illinois	0.66836	0.66836	0.66836	(4)
Test Year Payroll-related CWC Billings to Illinois	\$ 437,887	\$ 369,197	\$ 49,530	
1999 PSC and PSW Billings to Illinois	0.22124	0.22124	0.22124	(4)
Multiplied by: Adjusted test year projected Service Company billings	\$ 841,293	\$ 709,321	\$ 95,160	
1999 PSC and PSW Billings to Illinois	\$ 186,127	\$ 156,930	\$ 21,053	
1999 Payroll-related PSC and PSW Billings to Illinois	0.54173	0.54173	0.54173	(4)
Test Year Payroll-related PSC and PSW Billings to Illinois	\$ 100,830	\$ 85,013	\$ 11,405	
Combined CWC, PSC and PSW Payroll-related Billings to Illinois	\$ 538,717	\$ 454,210	\$ 60,935	
Multiplied by: Payroll Adjustment Factor for Service Billings	(0.06171)	(0.06171)	(0.06171)	(5)
Adjustment to Payroll-related Service Company Billings	\$ (33,242)	\$ (28,027)	\$ (3,760)	

(1) From Company Schedule C-4.1

(2) From ICC Staff Exhibit 1.00, Schedule 1.09 K, V and W, page 1, line no. 4

(3) ICC Staff Exhibit 3.00, Schedule 3.01, pages 1 and 2. Percentage of adjustment to allocation of Corporate Office and Vermilion Remittance Center resulting from inclusion of Candlewick Sewer

(4) This schedule, page 6

(5) This schedule, page 4

Consumers Illinois Water Company
Staff Adjustment to Service Company Billings
For the test year ending December 31, 2001

Sundry-related Service Company Billings:

1999 CWC Billings to Illinois	0.77876	0.77876	0.77876	(1)
Multiplied by: Adjusted test year projected Service Company billings	\$ 841,293	\$ 709,321	\$ 95,160	
Test year CWC Billings to Illinois	\$ 655,166	\$ 552,392	\$ 74,107	
1999 Sundry-related CWC Billings to Illinois	0.33164	0.33164	0.33164	(1)
Test Year Sundry-related CWC Billings to Illinois	\$ 217,279	\$ 183,195	\$ 24,577	
1999 PSC and PSW Billings to Illinois	0.22124	0.22124	0.22124	(1)
Multiplied by: Test year projected Service Company billings	\$ 841,293	\$ 709,321	\$ 95,160	
1999 PSC and PSW Billings to Illinois	\$ 186,127	\$ 156,930	\$ 21,053	
1999 Sundry-related PSC and PSW Billings to Illinois	0.45827	0.45827	0.45827	(1)
Test Year Payroll-related PSC and PSW Billings to Illinois	\$ 85,297	\$ 71,917	\$ 9,648	
Combined CWC, PSC and PSW Sundry-related Billings to Illinois	\$ 302,576	\$ 255,111	\$ 34,225	
Multiplied by: Sundry Adjustment Factor for Service Billings	(0.13428)	(0.13428)	(0.13428)	(2)
Adjustment to Sundry-related Service Company Billings	\$ (40,631)	\$ (34,257)	\$ (4,596)	

(1) This schedule, page 6

(2) This schedule, page 5

Consumers Illinois Water Company
Staff Adjustment to Service Company Billings
For the test year ending December 31, 2001

- Review of Philadelphia Suburban Corporation ("PSC") and Philadelphia Suburban Water Company ("PSW") Billings -

			Hours	Illinois Allocation	Hours billed to Illinois	Hourly Rate	Amount billed to Illinois
Service (Payroll) Billings:							
Cummings	02/2000 PSC	MD & A analysis	4	0.1125	0.45	\$ 26.14	\$ 11.76
		MD & A #S for Bob Rubin	9	0.1125	1.01	\$ 26.14	\$ 26.47
Riegler		Corporate water acquisitions	1	0.1125	0.11	\$ 88.67	\$ 9.98
			3	0.1125	0.34	\$ 88.67	\$ 29.93
			2	0.1125	0.23	\$ 88.67	\$ 19.95
			4	0.1125	0.45	\$ 88.67	\$ 39.90
			1	0.1125	0.11	\$ 88.67	\$ 9.98
			3	0.1125	0.34	\$ 88.67	\$ 29.93
			5	0.1125	0.56	\$ 88.67	\$ 49.88
Rubin	07/1999 PSC	Merger costs accounting			1.14	\$ 45.85	\$ 52.27
Stahl	05/1999 PSC	Meeting w/Shank on integration of Consumers			0.27	\$ 89.64	\$ 24.20
		Meeting w/NDB, Smeltzer, et al.					
		on integration of Consumers			0.80	\$ 89.64	\$ 71.71
		Review of pooling issues on Consumers merger			0.11	\$ 89.64	\$ 9.86
Stahl	12/1999 PSC	Legal matters, acquisition organization			1.06	\$ 98.67	\$ 104.59
		Legal matters, minority shareholder issue			1.06	\$ 98.67	\$ 104.59
Rubin		Review tax merger cost			0.23	\$ 82.09	\$ 18.88
		Merger costs amortization			0.34	\$ 82.09	\$ 27.91
		Merger costs review			0.46	\$ 82.09	\$ 37.76
Jerdon	04/2000 PSC	Corporate water acquisitions			2.41	\$ 47.14	\$ 113.61
Kropilak	04/2000 PSW	Corporate water acquisitions			0.90	\$ 60.80	\$ 54.72
McAllister		Acquisition and growth			0.23	\$ 25.52	\$ 5.87
							\$ 853.74

Divided by: Total Payroll Reviewed

May 1999 PSW	\$ 7,332.28	
May 1999 PSC	\$ 12,440.07	
July 1999 PSC	\$ 9,210.78	
September 1999 PSW	\$ 3,824.71	
December 1999 PSC	\$ 9,777.82	
December 1999 PSW	\$ 6,681.29	
February 2000 PSC	\$ 10,814.60	
April 2000 PSC	\$ 16,399.52	
April 2000 PSW	\$ 13,618.54	\$ 90,099.61

Plus: Percentage of Lobbying Employee Payroll to Illinois 0.00948
0.05223

Service Company Payroll adjustment factor 0.06171

Consumers Illinois Water Company
Staff Adjustment to Service Company Billings
For the test year ending December 31, 2001

- Review of Philadelphia Suburban Corporation ("PSC") and Philadelphia Suburban Water Company ("PSW") Billings-

		<u>Amount</u>	<u>Illinois Allocation</u>	<u>Amount billed to Illinois</u>
Sundry Billings:				
07/1999 PSC	American Express - N DeBenedictus, Fruit baskets/Legislators			\$ 55.77
	KPMG Marwick, audit fees (1)	\$ 25,333.33	0.1144	\$ 2,898.13
07/1999 PSW	Brian Duffy - bonus (lobbying)			\$ 5,000.00
				\$ 7,953.90
	Divided by: Detailed Sundry Billings Reviewed, May 1999 through March 2000			\$ 180,677.46
				0.04402
	Plus: Lobbying employee billings to Illinois			0.09026
	Service Company Sundry adjustment factor			0.13428

(1) KPMG Marwick adjustment is based upon 2/3rds of a \$20,000 for the audit of the PSC and PSW employee benefit plans for the year ended December 31, 1998, + a \$12,000 bill for the audit of PSC financial statements for the quarter ended March 31, 1999.

Consumers Illinois Water Company
 Staff Adjustment to Service Company Billings
 For the test year ending December 31, 2001

Billings to Consumers Illinois Water Company

	<u>CWC Payroll</u>	<u>CWC Sundry</u>	<u>CWC Total</u>	<u>PSC Payroll</u>	<u>PSC Sundry</u>	<u>PSW Payroll</u>	<u>PSW Sundry</u>	<u>PSC and PSW Total</u>
January 1999	\$ 106,132.70	\$ 33,799.82	\$139,932.52					\$ -
February 1999	\$ 111,524.39	\$ 55,653.70	\$167,178.09					\$ -
March 1999			\$ -					\$ -
April 1999	\$ 68,205.06	\$ 34,157.64	\$102,362.70					\$ -
May 1999			\$ -	\$ 12,440.07	\$ 12,197.10	\$ 7,332.28	\$ 3,562.97	\$ 35,532.42
June 1999	\$ 56,513.24	\$ 32,051.45	\$ 88,564.69	\$ 11,104.83	\$ 721.46	\$ 9,301.96	\$ 2,811.19	\$ 23,939.44
July 1999			\$ -	\$ 9,210.78	\$ 18,460.57	\$ 6,072.62	\$ 16,123.68	\$ 49,867.65
August 1999			\$ -	\$ 8,034.45	\$ 16,706.28	\$ 5,014.76	\$ 3,631.64	\$ 33,387.13
September 1999			\$ -	\$ 11,611.69	\$ 4,900.12	\$ 3,824.71	\$ 6,569.13	\$ 26,905.65
October 1999	\$ 31,762.32	\$ 31,426.08	\$ 63,188.40	\$ 9,584.89	\$ 3,112.00	\$ 2,734.57	\$ 8,241.19	\$ 23,672.65
November 1999			\$ -	\$ 9,729.26	\$ 11,422.80	\$ 11,206.00	\$ 6,653.08	\$ 39,011.14
December 1999	\$ 87,882.71	\$ 42,165.06	\$130,047.77	\$ 9,777.82	\$ 6,042.83	\$ 6,681.29	\$ 24,181.31	\$ 46,683.25
January 2000			\$ -	\$ 8,948.90	\$ 13,325.04	\$ 5,657.59	\$ 4,887.60	\$ 32,819.13
February 2000			\$ -	\$ 10,814.60	\$ 8,397.59	\$ 6,235.10	\$ 1,923.74	\$ 27,371.03
March 2000			\$ -	\$ 18,831.14	\$ 1,951.67	\$ 12,342.74	\$ 742.64	\$ 33,868.19
April 2000 (1)			\$ -	\$ 16,399.52	\$ 10,938.19	\$ 13,618.54	\$ 4,111.83	\$ 45,068.08
	<u>\$ 462,020.42</u>	<u>\$ 229,253.75</u>	<u>\$ 691,274.17</u>	<u>\$ 136,487.95</u>	<u>\$ 108,175.65</u>	<u>\$ 90,022.16</u>	<u>\$ 83,440.00</u>	<u>\$ 418,125.76</u>
	<u>0.66836</u>	<u>0.33164</u>		<u>0.32643</u>	<u>0.25872</u>	<u>0.21530</u>	<u>0.19956</u>	
						<u>0.54173</u>	<u>0.45827</u>	

(1) No detail provided by the Company for April 2000 PSC sundry billing.

Total 1999 Billings

Consumers Water Company	\$ 1,110,277.26	0.77876
Philadelphia Suburban	\$ 315,419.84	0.22124
	<u>\$ 1,425,697.10</u>	

Consumers Illinois Water Company
Staff Adjustment to Service Company Billings
For the test year ending December 31, 2001

- Billings for PSW Lobbying Employee

<u>Month</u>	<u>Services</u>	<u>Sundries</u>	<u>Total</u>
May 1999	\$ 1,773.12	\$ 3,521.88	\$ 5,295.00
June 1999		(1) \$ 2,103.15	\$ 2,103.15
July 1999	\$ 498.69	\$ 8,054.98	\$ 8,553.67
August 1999	\$ 609.51	\$ 514.89	\$ 1,124.40
September 1999	\$ 609.51		\$ 609.51
October 1999	\$ 57.62		\$ 57.62
November 1999	\$ 2,304.80		\$ 2,304.80
December 1999	\$ 518.58	<u>\$ 3,100.47</u>	\$ 3,619.05
January 2000	\$ 541.53		\$ 541.53
February 2000	\$ 782.21		\$ 782.21
March 2000	\$ 842.38		\$ 842.38
April 2000	<u>\$ 2,226.29</u>		<u>\$ 2,226.29</u>
	<u>\$ 10,764.24</u>	(2) <u>\$ 17,295.37</u>	(3) <u>\$ 28,059.61</u>

(1) No June 1999 payroll provided for Philadelphia Suburban Water.

(2) Lobbying employee represents .05223 of Services (payroll) billings to Illinois for the months of May 1999 through April 2000, excluding June 1999.

$$= \$10,764.24 / (\$136,487.95 + \$90,022.16 - \$11,104.83 - \$9,301.96)$$

(3) Lobbying employee represents .09026 of Sundry billings to Illinois for the months of May 1999 through April 2000.

Consumers Illinois Water Company
 Staff Adjustment to Accumulated Deferred Income Taxes
 For the test year ending December 31, 2001

Division	Average Plant- in-Service Balance	Factor	Factor excluding Corporate
Corporate	\$ 4,085,290 (1)	0.02614	
Kankakee	\$ 46,894,430 (2)	0.30007	0.30812
Willowbrook Water	\$ 2,636,024 (3)	0.01687	0.01732
Willowbrook Sewer	\$ 4,732,581 (3)	0.03028	0.03110
University Park Water	\$ 6,323,647 (3)	0.04046	0.04155
University Park Sewer	\$ 14,452,499 (3)	0.09248	0.09496
Woodhaven Water	\$ 3,722,927 (3)	0.02382	0.02446
Sublette Sewer	\$ 4,717,506 (3)	0.03019	0.03100
Candlewick Water	\$ 3,523,041 (3)	0.02254	0.02315
Candlewick Sewer	\$ 8,385,398 (4)	0.05366	0.05510
Oak-Run	\$ 1,753,070 (3)	0.01122	0.01152
Vermilion	\$ 55,053,365 (5)	0.35227	0.36173
	<u>\$ 156,279,778</u>	<u>1.00000</u>	<u>1.00000</u>

Accumulated Deferred Income Taxes ("ADIT"):

	Kankakee 12/31/00	Kankakee 12/31/01	Vermilion 12/31/00	Vermilion 12/31/01	Woodhaven Water, 12/31/00	Woodhaven Water, 12/31/01
Total Company ADIT (6)	\$ (8,182,598)	\$ (8,527,807)	\$ (8,182,598)	\$ (8,527,807)	\$ (8,182,598)	\$ (8,527,807)
Allocation Factor	<u>0.30812</u>	<u>0.30812</u>	<u>0.36173</u>	<u>0.36173</u>	<u>0.02446</u>	<u>0.02446</u>
ADIT per Staff	\$ (2,521,236)	\$ (2,627,603)	\$ (2,959,894)	\$ (3,084,767)	\$ (200,160)	\$ (208,604)
ADIT per Company (7)	<u>\$ (2,745,662)</u>	<u>\$ (2,861,001)</u>	<u>\$ (3,092,852)</u>	<u>\$ (3,222,662)</u>	<u>\$ (204,498)</u>	<u>\$ (213,159)</u>
Adjustment (8)	<u>\$ 224,426</u>	<u>\$ 233,398</u>	<u>\$ 132,958</u>	<u>\$ 137,895</u>	<u>\$ 4,338</u>	<u>\$ 4,555</u>

(1) Company Schedule 6.03-R, average 12/31/00 and 12/31/01 balances for Vermilion Remittance Center and Corporate Office. Vermilion is multiplied by Percentage to be Allocated shown on Company Schedule B-5, page 3 of 3, column (E), line nos. 18, 20 and 22.

$$\$4,085,290 = \$76,692 \text{ (Vermilion)} + \$4,008,598 \text{ (Kankakee)}$$

(2) Company Schedule WP-A5, page 3 of 3, reduced by Company Schedule 6.03-R Corporate Office Depreciable Plant (\$4,008,598), with Corporate Ave. 2001 Plant shown on Company Schedule WP-A5, page 3 of 3 added back (\$1,311,479).

$$\$46,894,430 = \$49,591,549 - \$4,008,598 + \$1,311,479$$

(3) Company Schedule WP-A5, page 3 of 3, column (D)

(4) CIWC Exhibit No. 6.0R (Simpson Rebuttal), page 6, line 3.

(5) Company Schedule WP-A5, page 3 of 3, reduced by Company Schedule 6.03-R Vermilion Remittance Center allocated-out, as described in note (1) for this schedule.

(6) Company Schedule B-9, page 4 of 4, [column (G) + column (I)] divided by 2.

(7) Company Schedule B-9, page 4 of 4, column (K)

(8) To ICC Staff Exhibit 8.00, Schedule 8.10 (K), (V) and (W).